

November 14, 2013

The Bank of Korea

Monetary Policy Decision

The Monetary Policy Committee of the Bank of Korea decided today to leave the Base Rate unchanged at 2.50% for the intermeeting period.

(The following is an unofficial English translation of the Monetary Policy Committee statement.)

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Based on currently available information the Committee considers that the trend of economic recovery in the US has been maintained despite the temporary slowdowns in improvement of some economic indicators, and that the sluggishness of economic activities in the euro area appears to have continued to ease, albeit weakly, while the trends of economic growth in emerging market countries, above all China, have continued to show signs of recovering. The Committee forecasts that the global economy will sustain its modest recovery going forward, but judges that the likelihood of changes in global financial market conditions related to QE tapering by the US Federal Reserve, and the continued uncertainties surrounding the US government's budget bill and the increase in its debt ceiling pose downside risks to growth.

In Korea, indicators related to domestic demand slumped temporarily, but as exports have sustained their buoyancy the Committee appraises the economic recovery to have continued in line with the trend of growth. On the employment front, the scale of increase in the number of persons employed has expanded, led by increases in the 50-and-above age group and the service sector. The Committee expects that the domestic economy will maintain a negative output gap for a considerable time going forward, although it forecasts that the gap will narrow.

Consumer price inflation fell slightly from 0.8% the previous month to 0.7% in October, due mainly to expansions in the extents of decline in the prices of agricultural and petroleum products, but core inflation excluding agricultural and petroleum product prices was 1.6% as in the previous month. The Committee forecasts that inflation will remain low for the time being, owing primarily to the inflation reducing effects of policies such as free childcare provision and to the downward stabilization of international agricultural prices. As for the housing market, sales prices in Seoul and its surrounding areas turned upward while the uptrend of those in the rest of the country increased slightly. Leasehold-deposit prices sustained their high rate of increase of the previous month in Seoul and its surrounding areas, and their uptrend in the rest of the country accelerated.

The domestic financial markets have moved mainly in response to the reaching of agreement in the US fiscal negotiations and to changes in the expectations of a delay in QE tapering. Stock prices have fallen again, after having risen substantially, in line with shifts in the flows of foreigners' stock investment funds, and the Korean won has depreciated recently, after having sustained a trend of appreciation due to continuation of the current account surplus. Long-term market interest rates have risen, after fluctuating within a narrow range.

Looking ahead, while paying close attention to developments in and the influences of external risk factors, and monitoring the effects of the Base Rate cut and of the government's economic policies including the supplementary budget, the Committee will conduct monetary policy so as to keep consumer price inflation within the inflation target range over a medium-term horizon while ensuring that the growth potential is not eroded due to the continuation of slow growth.